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UNCLAS SECTION 01 OF 04 HANOI 000208

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E.O. 12958: N/A

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SUBJECT: VIETNAM: SON LA DAM APPROVED BY NATIONAL ASSEMBLY

1. (U) SUMMARY: In December, the 11th National Assembly gave "final" approval for the long-planned construction of the Son La Dam and hydroelectric plant in northwest Vietnam. The planning phase for this project has spanned more than 30 years and has instigated one of the more lengthy and interesting debates in the National Assembly. Son La would be the largest and most complex Dam/Hydroelectric project to be undertaken in Vietnam to date. A combination of growing demand for power by both industry and consumers, and a perceived need for greater flood control for the down-river Hoa Binh Dam (and ultimately, Hanoi) have pushed the project forward. A US-based engineering company is now working with the GVN to review and upgrade the feasibility study for the project. The 2.0-2.6 billion dollar project was originally scheduled to begin in 2003 but has been pushed back to 2005. However, it is not clear whether that date will ultimately hold.

2. (U) Concerns over safety issues (both the size of the dam and its location), the massive displacement of mostly ethnic minority persons (up to 91,000) and an incomplete and insufficient review of the overall environmental impact remain, making GVN law makers, international institutions (including the World Bank) and bilateral donors approach the project cautiously. At present, the IFIs have indicated that they are not willing to finance the project. Vietnam has announced plans to self-finance 70 percent and seek external financing for the remaining 30 percent. During a recent trip to the northwest, the Ambassador had an opportunity to discuss the project with local officials and residents. Provincial leaders in Lai Chau and Son La stated that an earlier idea to relocate people to the Central Highlands has been rejected and planning is now underway to carry out all relocation within those two provinces. Vietnam is grappling with some very difficult development choices, including the need to develop energy infrastructure if it is to meet its growth and poverty alleviation goals. The Son La project is a key part of Vietnam's energy development plan over the next 20 years but the trade-off on social and environmental costs will be high. The PM's personal interest in this "legacy" project and the active scrutiny of the plan by the National Assembly is a positive sign that hopefully the GVN will be held to a higher standard as this project is implemented. End Summary.

BACKGROUND ON SON LA PROVINCE

3. (U) Son La, the fifth largest province in the country, is located 320 kilometers Northwest of Hanoi and borders Laos on the south. Eighty percent of the province is mountainous. Son La is home to a number of minority ethnic groups, including the Ma, H'mong, Dzao, Muong, Kinh, Khmer, Tay, and Thai. Total population is about 923,000 and GDP per capita in 2001 was about \$143 (compared to national average of about \$380). Son La's natural resources include forestry, agriculture and hydroelectricity.

SON LA DAM PROJECT - ENERGY, FLOOD CONTROL, AND IRRIGATION

4. (U) Robust economic development, industrialization and the creation of a fledgling consumer society is contributing to strong growth in demand for power in Vietnam, with an average increase of 14-15 percent annually over the past few years. This growth is straining Vietnam's current capacity and is creating an urgent need for energy infrastructure development. Current electricity consumption per capita averages about 340 kWh/year, while Thailand uses 2,000 kWh/year, Malaysia 2,500 kWh/year and Singapore 6,000 kWh/year. The GVN estimates that at the current production and consumption rates, Vietnam will have to purchase 6-7 billion kWh/year by 2005. The GVN estimates total demand to rise to 70-80 billion kilowatts in 2010 and 160-200 billion kilowatts in 2020, although that is probably an overestimate. As currently planned, the Son La hydroelectric project will have a capacity between 1,970 and 2,400 megawatts, will generate from 7.555 billion kWh to 9.209 billion kWh per year and cost between 2.6 and 2.7 billion dollars.

15. (U) Son La has also been proposed as a safety measure for the Hoa Binh Dam downstream. When Hoa Binh was built in the late 1980's, Soviet experts had warned that Vietnam should build a second hydroelectric project upstream in order to offer greater protection for Hoa Binh, because a severe flood could cause the dam to collapse. The Son La project will also provide water for low-land farming in the dry season and help prevent flooding in the rainy season.

A LONG TIME ON THE DRAWING BOARD -----

16. (U) The Vietnamese government has been studying a possible Son La project since the 1960's. The Moscow Institute of Hydroelectric and Industry, Japanese consultants, and the Moscow-based Designing Survey Research and Production Shareholding Company (they had previously worked on Hoa Binh) have conducted a succession of feasibility studies. A Swedish and American joint engineering consulting firm, Harza-Sweco, began work in 1999 with the GVN to ensure that the project meets international standards.

NATIONAL ASSEMBLY HAS CONCERNS -----

17. (U) Perhaps the most interesting part of the Son La saga is the detailed and prolonged National Assembly (NA) debate on the issue. A project of this size and impact needs NA approval. The plan was submitted in 1999 after the Communist Party Politburo approved the project. However, at NA's annual session in June 2001, members of Parliament (MPs) raised their concerns about the scale of the project and the resettlement, asking for more detailed studies. Originally, construction was to start in 2003, but it has been delayed to at least 2005.

18. (U) Initial plans for a 265-metre (875-feet) high dam were scaled down to 215 meters after NA legislators criticized the human and environmental costs of the project. More than 44,700 hectares (110,000 acres) of land, including a 41 kilometers (25 mile) section of a national highway would have been submerged under the original proposal. In addition, some 100,000 people, mostly ethnic minorities, would have required relocation (see below). MPs also questioned the safety of building such a large dam on the Da River in Vietnam's earthquake-prone northern mountains and the potentially devastating flooding impact it could have downstream, particularly on Hanoi. After much acrimonious debate, in June 2001 the National Assembly approved the dam project in principle but made clear that it was unhappy with the scale. Based on the NA concerns, in March 2002, the government revised the Son La project and again sent it first to the Politburo for "examination" before being submitted to the NA for final approval.

19. (U) The GVN's revised plan came up for debate in the NA in November 2002. The GVN proposed 3 options: a high dam (265m), low dam (215m), and a combination small Son La dam and Lai Chau dam. All three options would have severe social and environmental impacts (loss of ancestral sites and cultivated land, displacement of persons, flooding of arable and forested land, reduction in bio-diversification, etc.). The proposal came under criticism by the National Assembly because it still lacked a proper analysis regarding the pros and cons of the various options. Rather, it only focused and argued for one of the three (low dam) and did not provide an objective basis for selecting the most appropriate option.

110. (U) Many NA members raised concerns about the proposed resettlement of local inhabitants. The low dam 215 meter option will displace approximately 16,000 to 18,200 households comprised of 79,000 to 91,000 people, requiring the largest resettlement in Vietnam's history. The affected persons include 10 different ethnic groups, of which the Thai minority comprise 74%, Kinh (national majority) 11% and the rest distributed among the Dao, La Ha, Xa, Kho Mu, Lu, Khang, Si La, Day and Nhi ethnic groups. The population is made up of about 86% rural and 14% urban dwellers. The project will flood 9,987 hectares of agricultural land, including rice paddies, gardens and fishponds, 2,500 to 3,100 hectares of forest and 5,563 to 6,163 hectares of other lands.

111. (U) Originally, the GVN gave priority to resettlement sites on the remaining land within Son La and Lai Chau provinces. However, because neither Son La nor Lai Chau has sufficient additional arable land available for resettlement, only a portion of the displaced could be relocated without major environmental impact. For these reasons, the GVN considered a second settlement option that would move the majority of affected people to areas in the Central Highlands, where population density is low. This proposal raised protests not only from the Son La residents but also from NGOs, bilateral donors and international

organizations. On a recent trip to the Northwest, provincial leaders in Lai Chau and Son La told the Ambassador that this proposal has been rejected and that planning is underway to carry out all relocations within those two provinces. While this will hopefully reduce the social impact, the resettlement of a large number of people on the remaining land will create new environmental stresses in terms of soil erosion and increased deforestation in the northwest.

112. (U) Despite many unanswered questions, the National Assembly overwhelmingly approved the Son La hydroelectric project last December, opting for the "low design" at 215 meters. Construction of the plant is expected to begin in 2005 in order to ensure that its first turbine will generate electricity in 2013, with full operation by 2015.

WHO WILL PAY?

113. (U) The real question now is how Vietnam will finance the Son La project. The estimated cost is VND 31,000 - 37,000 billion (USD 2 - 2.6 billion), of which 70 percent is projected to be raised through "domestic financing" and 30 percent through "external financing." Possible sources of financing could include deferred payment of equipment, foreign loans, domestic credit, bonds, and increased power rates in the first 3 years. The resettlement cost is estimated to be 14-17 percent of the total cost, which is the highest rate ever used for resettlement in Vietnam. Although the government plans to spend USD 5,000 per resettled person, officials have not provided details regarding that part of the project's funding. There is little support among the IFI's and bilateral donors to provide financing to cash-strapped Vietnam for the project, given the forced large-scale displacement of people and the severe environmental impact.

AMBASSADOR'S TRIP TO THE NORTHWEST

114. (SBU) During a trip to the northwest region in November, the Ambassador discussed the Son La dam project with local officials and residents and visited villages that will disappear after the project's completion (including the provincial capital of Lai Chau). The Chairmen of the Lai Chau and Son La People's Committees expected that the great majority of displaced people would be in Son La province. They stated emphatically that the option of relocation to the Central Highlands had been rejected and plans were now being developed to move all affected persons to areas within the two provinces. In Son La, we heard that the infrastructure for two small pilot re-housing projects (400 and 250 homes) was being installed and that a few families had been moved already. The authorities claimed that new homes would be built in accordance with the traditional style of the Thai and other ethnic groups to be resettled. We also heard some predictable allegations from the "man-in-the-coffee shop" that local officials are already benefiting from corruption related to the dam project. (Note: The Hanoi ethnology museum, which is primarily dedicated to Vietnam's ethnic minorities, has a small display on the Son La dam project and proudly displays photos of one of the pilot housing projects - modern cement block buildings in a muddy dirt field, a far cry from the traditional village houses of the area.)

115. (SBU) Provincial leaders acknowledged that mistakes had been made in past dam relocation projects, such as Hoa Binh. They insisted that this time, every effort would be made to ensure that relocation actually improved peoples' lives. They have given the same pitch to residents of villages to be submerged. The villagers did not seem completely convinced and are insisting that at a minimum, entire villages be moved together. But in Hoa Binh province, no one expected any prompt resolution to the 15 year old problem of 8000 Muong people who refuse relocation from the banks of the reservoir where they live under difficult conditions as close as they can to their submerged ancestral grounds.

PRIME MINISTER'S LEGACY AND EMBASY SUPPORT FOR US FIRM

116. (SBU) Several months ago, the Senior Commercial Officer in Hanoi accompanied Montgomery Watson Harza (MWH) executives, including Dr. Abdel-Malek, President, to a meeting with Prime Minister, Phan Van Khai. The discussions lasted for more than one hour and the PM was extremely knowledgeable about the details of the project. His staff indicated that the PM viewed Son La as his personal "legacy" to Vietnam. The PM was especially concerned about the issue of safety, and noted that he did not want to be the PM who "drowned Hanoi." Embassy and CS Hanoi will continue to work with MWH and other American firms interested in this project. (Note: MWH is a large engineering firm focusing on energy and infrastructure projects. The company is very

interested in serving as the project management group for Son La.)

COMMENT

117. (SBU) Vietnam is grappling with some very difficult choices regarding economic development and poverty alleviation. Vietnam's future development will require significant energy infrastructure investment and expansion of electricity production capacity. Without more, cheaper, and preferably local sources of energy, Vietnam will not be able to meet its overall development goals both on the economic and the social fronts. The Son La project is a key part of Vietnam's energy development plan over the next 20 years, but the trade-off on social and environmental costs will be high, if not severe in some cases. This project is somewhat reminiscent of the 1930's Tennessee Valley Authority, including the tough issue of relocation of large numbers of ethnically distinct groups, or in Tennessee's case, culturally distinct groups. The PM's personal interest in this "legacy" project and the active scrutiny by the National Assembly are positive signs that they will continue to monitor the implementation of the Son La project and hopefully, hold the GVN to higher standards than was the case in previous projects.
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